

Message Text

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OMB-01 AGRE-00 /064 W
-----151900Z 094567 /53

R 151654Z APR 77
FM AMEMBASSY LISBON
TO SECSTATE WASHDC 0976
INFO AMCONSUL HONG KONG

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E.O. 11652: N/A
TAGS: ECON, PO
SUBJECT: ECONOMIC DEVELOPMENTS - TOURISM REBOUNDS

REF: LISBON 2941

SUMMARY. AN ESTIMATED 100,000 TO 150,000 EASTER TOURISTS BUOYED PORTUGUESE HOPES FOR A SIGNIFICANT TOURISM RECOVERY IN 1977, BUT REVEALED CONTINUING TOURIST SECTOR DEFICIENCIES. THE CONCLUSION OF A COLLECTIVE LABOR CONTRACT FOR HOTEL AND RESTAURANT WORKERS FURTHER ENHANCED TOURIST PROSPECTS, WHILE A SECOND GOP APPROVAL OF WORKER DISMISSALS FOR ECONOMIC REASONS INDICATES EVOLUTION TOWARD MORE REALISTIC LABOR POLICIES. ENCOURAGING DEVELOPMENTS ON THE LABOR AND TOURISM FRONTS WILL PROBABLY NOT BE ENOUGH TO STIMULATE IMMEDIATELY LARGE NEW INVESTMENTS, WHICH STILL AWAIT A FURTHER CLARIFICATION OF THE RULES OF THE GAME. END SUMMARY.

1. EASTER TOURISM: PORTUGUESE HOPES FOR THE RECOVERY OF FOREIGN TOURISM IN 1977 ROSE OVER THE APRIL 8-10 EASTER WEEKEND AS AN ESTIMATED 100,000 TO 150,000 TOURISTS, MAINLY SPANISH, VISITED PORTUGAL. THE UNANTICIPATED WAVE OVERFLOWED
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HOTELS AND ALLOWED RECORD SALES FOR THE FEW SHOPS THAT WERE OPEN. IT ALSO HIGHLIGHTED, HOWEVER, BASIC STRUCTURAL AND ATTITUDINAL WEAKNESSES IN PORTUGAL'S TOURISM SECTOR.

2. THE PROBLEMS STARTED AT THE FRONTIERS WHERE THOROUGH CUSTOMS SEARCHES (SOMETIMES ON THE SPANISH SIDE AS WELL) AND EARLY EXHAUSTION OF LOCAL BANKS' ESCUDO RESERVES CAUSED

CONSTERNATION. ONCE ACROSS THE BORDER, TOURISTS FOUND THEMSELVES HARD PUT TO SPEND THEIR MONEY. EXCEPT IN OPORTO, SHOPS, MANY RESTAURANTS, AND EVEN TOURIST ATTRACTIONS WERE CLOSED GOOD FRIDAY AND SATURDAY AFTERNOON. RESTAURANTS, OPERATING ON SKELETON CREWS FOR THE HOLIDAYS, PROVIDED SLOW SERVICE AND MANY RAN OUT OF SUCH BASIC ITEMS AS COFFEE AND BOTTLED WATER. MANY SERVICES CLOSED BECAUSE OWNERS COULD NOT AFFORD DOUBLE AND TRIPLE PAY FOR WEEKEND OVERTIME.

3. THE GOP, WHILE ADMITTING THAT THE EASTER WEEKEND HAD REVEALED WEAKNESSES, CLAIMED IT HAD SUCCESSFULLY DEMONSTRATED THAT ITS AGGRESSIVE TOURISM PROMOTION CAMPAIGNS ARE BEARING FRUIT. MORE IMPORTANT REASONS FOR THE FLUSH EASTER HOLIDAY, HOWEVER, WERE THE RELATIVE POLITICAL STABILITY OF THE PAST YEAR AND THE FEBRUARY 25 ESCUDO DEVALUATION. IN ANY CASE, THE EASTER EXPERIENCE INDICATES HEAVY FOREIGN INTEREST IN VACATIONS IN PORTUGAL THIS YEAR.

4. LABOR: THE APRIL 7 SIGNING OF A NEW COLLECTIVE LABOR AGREEMENT FOR HOTEL AND RESTAURANT EMPLOYEES FURTHER ENHANCED TOURIST PROSPECTS FOR 1977. THE CONTRACT, WHICH PROVIDES FOR A 14 PERCENT OVERALL PAYROLL INCREASE, CURRENTLY APPLIES ONLY TO GOP-OWNED OR CONTROLLED ESTABLISHMENTS, BUT IS LIKELY TO BE EXTENDED TO PRIVATE SECTOR AS WELL. CONTRACT WAS SIGNED AFTER SEVERAL MONTHS OF RANCOROUS NEGOTIATIONS PUNCTUATED BY FREQUENT UNION STRIKE THREATS. OTHER DEVELOPMENTS IN THE LABOR FIELD INCLUDED:
-- EVOLVING DISMISSAL POLICY: GOP HAS AUTHORIZED LIMITED OFFICIAL USE

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GERMAN-OWNED AGFA GAVAERT CAMERA AND FILM PLAND TO DISMISS 85 EMPLOYEES IN A MOVE TO CUT COSTS AGFA WILL PAY FULL INDEMNIZATION TO THOSE DISMISSED AND WILL TRY TO REABSORB THEM AS IMPROVED MARKET CONDITIONS PERMIT. DECISION FOLLOWS RECENT GOP AUTHORIZATION FOR MARRIOTT DISMISSALS, INDICATING FAVORABLE EVOLUTION OF GOVERNMENT ATTITUDES TOWARD MORE REALISTIC LABOR POLICIES. (SEE REFTEL)
-- BANK EMPLOYEES DISPUTE: EMPLOYEES OF BANCO PORTUGUES DO ATLANTICO (BPA), PORTUGAL'S LARGEST COMMERCIAL BANK, ARE CONTINUING DAILY WORK STOPPAGES TO PRESSURE GOP INTO RAISING THER WAGES TO LEVELS PAID IN OTHER NATIONALIZED PORTUGUESE BANKS. BANK ADMINISTRATIVE COMMISSION HAD PREVIOUSLY AGREED TO INCREASES. ON APRIL 14 GOP THREATENED BPA EMPLOYEES WITH COMPULSORY ABSORPTION INTO CIVIL SERVICE IF STOPPAGES DID NOT END BY APRIL 18. CIVIL SERVANTS CANNOT LEGALLY STRIKE IN PORTUGAL.

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-----151859Z 094506 /53

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5. STATISTICS: ON APRIL 13 MINISTER OF PLAN AND
ECONOMIC COORDINATIONSWARE IN NEW DIRECTORS OF NATIONAL
INSTITUTE OF STATISTICS. AS MINISTER NOTED DURING INSTALL-
MENT CEREMONY, STATE STATISTICAL APPARATUS HAS BEEN
NOTORIOUSLY INADEQUATE. GOVERNMENT, HOWEVER, HAS BEEN
ATTEMPTING TO UPGRADE QUALITY AND TIMELINESS OF STATISTICAL
REPORTING. RECENTLY RELEASED GOP STATISTICS INCLUDE:
-- FINANCIAL/MONETARY INDICATORS FROM MINISTRY OF
PLANNING'S DEPARTMENT FOR CENTRAL PLANNING (DPC):

1974 1975 1976

(BILLIONS OF ESCUDOS)

A. TOTAL MEANS OF PAYMENT (M-2)	324,286	385,484	452,786
B. MEANS OF PAYMENT (M-1)	182,501	227,219	249,450
C. MONEY IN CIRCULATION	69,703	109,781	107,685
D. GOLD AND LIQUID FOREIGN RESERVES	63,307	38,912	11,106
E. PRIVATE DEMAND DEPOSITS	112,798	117,438	141,585
F. PRIVATE TIME DEPOSITS	159,785	158,215	192,285
G. INTERNAL CREDIT	330,716	393,195	507,020
H. PUBLIC DEBT	36,911	66,857	118,909
I. PRIVATE DEBT	293,805	326,338	388,111

-- CONSTRUCTION INDICATORS: DPC HAS ALSO RELEASED
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FOLLOWING INDICATORS:

A. CEMENT CONSUMPTION (000 TONS) 3,413.0 3,229.7 3,799.9

B. STEEL SALES FOR CONSTRUCTION

(000 TONS) 250.1 158.0 178.3

C. CONCESSION OF BUILDING PERMITS 47.0 47.8 56.4

-- CONSUMER PRICE INDICES: INE HAS INFORMALLY PROVIDED FOLLOWING LISBON CONSUMER PRICE INDEX FIGURES, WITH 1963 AS BASE. (THIS INDEX IS BEING PHASED OUT AND REPLACED BY NEW SERIES BASED ON AVERAGE 1976 PRICES. THE 1976 INDEX DOES NOT ALLOW COMPARISON WITH PREVIOUS YEARS.)

A. LISBON CONSUMER PRICE INDEX (INCLUDING HOUSING)

MONTH PERCENT CHANGE FROM PREVIOUS YEAR:

1975 1976 1977

1. DEC. 21.4 27.1 --

2. JAN. 22.3 23.7 20.1

3M FEB. 13.0 21.1 26.3

B. LISBON CONSUMER FOOD PRICE INDEX:

MONTH PERCENT CHANGE FROM PREVIOUS YEAR:

1975 1976 1977

1. DEC. 22.4 29.4 --

12. JAN. 37.4 26.6 20.8

3. FEB. 28.8 22.9 27.8

6. PRICE HIKES: PRICES CONTINUED TO CLIMB AT AN INCREASING RATE IN MARCH AND APRIL AS GOP MOVED TO IMPLEMENT LIBERALIZATION OF ITS PRICE CONTROLS. ON APRIL 7 IT ANNOUNCED AVERAGE 20 PERCENT JUMP IN PRICES OF NEW AUTOMOBILES. GOP ACTION ON AUTO PRICES CAUGHT MANY BY SURPRISE; IT HAD BEEN EXPECTED, BUT NOT UNTIL JUNE. PRICE RESTRICTIONS ON MOVIE AND THEATER TICKETS AND ON LAUNDRY SERVICES HAVE BEEN REMOVED COMPLETELY. GOP HAS ALSO LIBERALIZED PROCEDURES FOR SETTING PRICES OF DOMESTIC APPLIANCES. PRICE RISE WITH MOST PSYCHOLOGICAL IMPACT FOR AVERAGE PORTUGUESE, HOWEVER, WAS APRIL 7 DOUBLING OF THE PRICE OF A CUP OF COFFEE.

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7. FINANCIAL MEASURES FOR MACAO: APRIL 14 LISBON PRESS REPORTED MACAO WILL HAVE ITS OWN CENTRAL BANK STARTING JULY 1, 1978. DECISION WAS REACHED IN RECENT NEGOTIATIONS BETWEEN THE MACAO GOVERNMENT - AUTONOMOUS UNDER THE APRIL 1976 CONSTITUTION - AND THE BANCO NACIONAL ULTRA-MARINO (BNU), WHICH IN PAST HAS ACTED AS BANK OF ISSUE FOR MACAO. THE MACAO GOVERNMENT WILL HOLD 51 PERCENT OF THE BANK'S CAPITAL WHICH WILL TOTAL BETWEEN 25 AND 50 MILLION PATACAS. BNU WILL HAVE CURRENCY ISSUING POWERS AND ALSO OPERATE AS A COMMERCIAL BANK. IN A SEPARATE DECISION, THE MACAO GOVERNMENT PEGGED THE PATACA TO THE HONG KONG DOLLAR, THEREBY ENDING ITS DIRECT LINK TO THE ESCUDO.

8. EXCHANGE RATE: LISBON CHECK BUY RATE CLOSED APRIL 15
AT 38.681 EQUALS 1 U.S. \$.

9. COMMENT: A) STATISTICS: OFFICIAL MONETARY/FINANCIAL
FIGURES SHOW STRONG MOVEMENT IN 1976 INTO TIME DEPOSITS
AND OTHER LONGER TERM CREDIT INSTRUMENTS. AS A RESULT,
MONEY IN CIRCULATION DECLINED SLIGHTLY AFTER A SHARP

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-----151858Z 094557 /53

R 151654Z APR 77
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INCREASE IN 1975. THE 1976 TREND IS PRIMARILY ATTRIBUTABLE TO INCREASED POLITICAL STABILITY, WHICH STRENGTHENED CONFIDENCE IN THE BANKING SYSTEM, AND TO DEARTH OF OTHER FINANCIAL INSTRUMENTS. IT ALSO REFLECTS LIBERALIZATION OF RESTRICTIONS ON WITHDRAWALS OF TIME DEPOSITS AND ON DISCOUNTING OF PUBLIC BONDS, THUS MAKING THESE MORE ATTRACTIVE TO THE SMALL SAVER. THESE FINANCIAL TRENDS TEND TO SUPPORT THESIS THAT PRIVATE CONSUMPTION PEAKED IN EARLY 1976 AND HAS SINCE BEEN ON THE DECLINE. CONSTRUCTION DATA INDICATE THAT PRIVATE AND PUBLIC HOUSING IS ON THE REBOUND, BUT HEAVY INDUSTRIAL CONSTRUCTION, WITH ITS HEAVY STEEL COMPONENT, REMAINS STAGNANT. INCREASED 1976 STEEL CONSUMPTION CAN BE ATTRIBUTED LARGELY TO EXPANDED PUBLIC WORKS PROJECTS. CONSUMER PRICE FIGURES ARE HIGHLY SUSPECT, PARTICULARLY THAT FOR JANUARY 1977. TWELVE MONTH INCREASE APPEARS SURPRISINGLY LOW, LARGELY FOR FOLLOWING REASON. IN JANUARY 1976 GOP FORCED DOWN A NUMBER OF COMMODITY PRICES THAT HAD JUMPED BY VERY LARGE AMOUNTS IN DECEMBER 1975. ON THE OTHER HAND, JANUARY 1977 WAS MARKED BY A NUMBER OF PRICE INCREASES.

THUS THE SPREAD BETWEEN THE TWO JANUARIES SHOULD PRGBABLY
HAVE BEEN LARGER THAN THE 20.8 PERCENT SHOWN.
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B) GENERAL: IMPROVED PROSPECTS FOR 1977 TOURISM, RELATIVE
LABOR STABILITY, ENCOURAGING EVOLUTION OF GOP POLICY ON
COLLECTIVE DISMISSALS, AND INCREASINGLY FLEXIBLE PRICE
CONTROLS ARE ALL SIGNIFICANT DEVELOPMENTS THAT HAVE
IMPRESSED INVESTORS. IN THEMSELVES, HOWEVER, THEY WILL
NOT BE ENOUGH TO ENCOURAGE THE LEVEL OF PRIVATE INVESTMENT
NECESSARY FOR STRONG ECONOMIC RECOVERY. INVESTORS
WILL REQUIRE BETTER DEFINITION OF THE RULES OF THE GAME,
E.G. DELIMITATION OF PRIVATE AND PUBLIC SECTORS, DEFINITION
OR WORKER CONTROL, INDEMNIZATION FOR SHAREHOLDERS OF
NATIONALIZED ENTERPRISES, REGULATIONS FOR FIRMS UNDER
GOVERNMENT CONTROL, RESOLUTION OF CURRENT INVESTMENT
DISPUTES, AND ESTABLISHMENT OF FOREIGN INVESTMENT INSTITUTE.
MOST OF THESE ISSUES ARE SCHEDULED FOR DEBATE IN ASSEMBLY
DURING NEXT FEW WEEKS.
CARLUCCI

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01-Jan-1994 12:00:00 am
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: REPORTS, ECONOMIC CONDITIONS, TOURISM, FINANCIAL TRENDS
Control Number: n/a
Copy: SINGLE
Sent Date: 15-Apr-1977 12:00:00 am
Decaption Date: 01-Jan-1960 12:00:00 am
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 22 May 2009
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1977LISBON03009
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Expiration:
Film Number: D770131-1242
Format: TEL
From: LISBON
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1977/newtext/t19770453/aaaabtz.b.tel
Line Count: 302
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: 74ee98a4-c288-dd11-92da-001cc4696bcc
Office: ACTION EUR
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 6
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: 77 LISBON 2941
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 09-Dec-2004 12:00:00 am
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 2796202
Secure: OPEN
Status: NATIVE
Subject: ECONOMIC DEVELOPMENTS - TOURISM REBOUNDS
TAGS: ECON, PO
To: STATE
Type: TE
vdkgvwkey: odb://SAS/SAS.dbo.SAS_Docs/74ee98a4-c288-dd11-92da-001cc4696bcc
Review Markings:
Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
22 May 2009
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009